■THE TAX BATTLE • CAN U.S. CARS COME BACK? • A VACCINE FOR AIDS■

C890

FEBRUARY 26, 1990

FORTUNE

FEAR AND LOATHING OF JAPAN

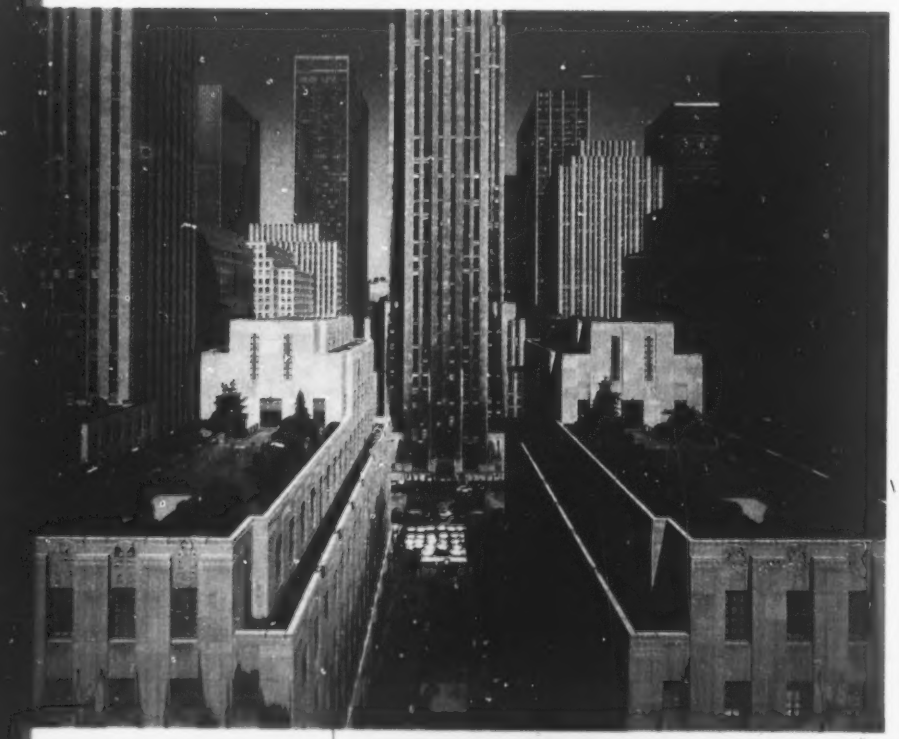
■ Why it's growing
■ Why it's dangerous
■ What to do about it

#105G*********5-DIGIT 20814
#S99E952099105 Y520814 JUN91
SR1 CNGRSSN INFO SVC MDOOMA***
4520 EAST-WEST HWY 6104
BETHESDA MD 20814-3319 PL00121

10093
09
0 72443 4 2

FEBRUARY 26, 1990

FORTUNE



"If a Japanese buys a building in the U.S., we see it as an invasion. If he takes it apart brick by brick and carries it back to Japan, we call that trade." PAGE 50

ABOVE: A Japanese company caused an outcry by buying into Manhattan's Rockefeller Center, photographed by Ezra Stoller—Esto.

COVER: American business's view of Japan, painted by Joo Chung.

JAPAN/Cover Story

FEAR AND LOATHING OF JAPAN 50
For too many Americans, the Japanese have become the people it's okay to hate. In some precincts a whiff of McCarthyism is in the air. The danger is that the spiral of rising passions on both sides will lead to restrictions on investment, tariffs and embargoes, interest rate battles—the real economic war that people only hallucinate about now. *by Lee Smith*

JAPAN AND THE U.S.: THE MISINFORMATION AGE 53

HOW IT LOOKS TO AN AMERICAN IN TOKYO 54

AUTOS

CAN AMERICAN CARS COME BACK? 62
Detroit's problems go well beyond slow sales. The Big Three must make huge changes—and get some lucky breaks. *by Alex Taylor III*

TAXES

WHY YOUR TAXES WON'T GET CUT 68
Deficit worries will force Washington to offset revenue losers with new increases. Hope for fairness, but hold on to your wallet. *by Ann Reilly Dowd*

THE TAX FIGHT SCORECARD 72

MANUFACTURING/A Fortune Portfolio

THE ULTIMATE COMPUTER FACTORY 75
Next's workstation plant has lasers, robots, speed, and remarkably few defects. Now all it needs is more orders for the product. *by Mark Alpert*

CORPORATE PERFORMANCE

AMERICA'S TOUGHEST PAPERMAKER 80
Marshall Hahn is risking the wrath of his industry—plus the peril of carrying huge debt—in his push to make Georgia-Pacific the world's No. 1 paper producer. *by Erik Calonius*

BIG MAC ATTACKS WITH PIZZA 87
As America cuts out fat, McDonald's tackles its toughest food fight ever by serving the favorite evening restaurant dish. *by Ronald Henkoff*

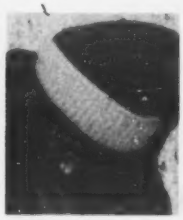
COMPANIES TO WATCH 90

VOL. 121, NO. 5

"The Japanese have taken as much time as possible to yield as little as possible. That forfeits good will."
PAGE 54

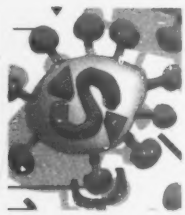
"He's got steel in his spine. He works like the dickens. And besides that, he's the smartest man I've ever met."
PAGE 80

"Fast food is not fast enough anymore. People say, 'I can heat something at home in 90 seconds by zapping it.'"
PAGE 87



"Our public space has been taken over by the poorest of the poor in a way not seen since the Depression."
PAGE 92

"Larry is lurking in the weeds, waiting for the multiples to come down, and then he will strike."
PAGE 99



"The issue of *whether* we can obtain an AIDS vaccine has changed to *when* we can get a vaccine."
PAGE 105

CITIES

NEW YORK: DOWN BUT HARDLY OUT 92

It has been unpopular, unpleasant, and unlivable for, oh, at least 100 years. The social and economic problems now seething in the city—crime, illiteracy, and homelessness; drug abuse and AIDS; the high costs of living and doing business—will test it more severely than at any time since the mid-1970s. But the ties that bind business to the place will not soon dissolve. *by Andrew Kupfer*

MANAGING

HAS LARRY TISCH LOST HIS TOUCH? 99

As president of CBS, the redoubtable billionaire has neither run the company nor managed its assets very well. Still, merger rumors have been making him even richer. *by Kenneth Labich*

HEALTH

A PROMISING NEW ASSAULT ON AIDS 105

There's real hope after all: A genetically engineered vaccine that will call forth a protective immune response to the chameleon virus could be here by 1993. Other drugs available sooner should slow or even stop the disease without AZT's side effects. *by Gene Bylinsky*

WHERE THE VIRUS IS VULNERABLE 106

INNOVATION

PRODUCTS TO WATCH 110

A hot car called Stealth making its debut this fall, Club Med's big, big sailboat, Motorola's latest superchip, and more. *by Edward C. Baig*

DEPARTMENTS

EDITOR'S DESK 4

INDEX 6

NEWS/TRENDS 8

What's ahead at annual meetings, high tech as a proxy weapon, worries about RJR Nabisco bonds, Apple Computer's revolving door, and more.

FORTUNE FORECAST 25

After a lot of flailing, the budget should move toward a modified, stretched-out set of Gramm-Rudman-Hollings targets. *by Vivian Brownstein*

PERSONAL INVESTING 33

Bad news about junk bonds has dropped them to temptingly low prices. Best bet: those backed by recession-resistant businesses. *by Joshua Mendes*

Also: a California real estate play, money market funds with a foreign flair, and Portfolio Talk with Donna Calder of Oppenheimer Management.

FORTUNE PEOPLE 113

An earthy auctioneer hits pay dirt, Michael Blumenthal jumps ship at Unisys, a CEO studies for his M.D., and more. *by Alan Deutschman*

ON THE RISE 114

BOOKS & IDEAS 117

The RJR Nabisco buyout was drama enough for two books, and nobody comes out of either looking any too good. *by Bill Saporito*

LETTERS TO FORTUNE 120

KEEPING UP 123

The odds on Capitol Hill, Liddy Dole and collective bargaining, and more *by Daniel Seligman*

EDITOR-IN-CHIEF Jason McManus
EDITORIAL DIRECTOR Richard B. Stolley
CORPORATE EDITOR Gilbert Rogin

TIME INC. MAGAZINES
PRESIDENT Reginald K. Brack Jr.
EXECUTIVE VICE PRESIDENTS Donald M. Elliman Jr., S. Christopher Meigher III, Robert L. Miller
SENIOR VICE PRESIDENTS Richard W. Angle Jr., Michael J. Klingensmith

FORTUNE

Founder Henry R. Luce, 1898-1967

MANAGING EDITOR Marshall Loeb
EXECUTIVE EDITOR Allan T. Demaree
ASSISTANT MANAGING EDITORS Walter Kiechel III, Ann M. Morrison
INTERNATIONAL EDITOR Donald D. Holt
ART DIRECTOR Margery Peters
PICTURE EDITOR Michele F. McNally
BOARD OF EDITORS Evelyn Benjamin, Charles G. Burck, Gene Bylinsky, Geoffrey Colvin, Julie Connelly, John J. Curran, Marta F. Dorion, Edmund Faltermayer, Susan Fraker, Keith R. Johnson, Richard I. Kirkland Jr., Louis Kraar, Kenneth Labich, Colin Leinster, Carol Junge Loomis, Myron Magnet, Jeremy Main, Todd May Jr., Peter Petre, Bill Saporito, Stratford P. Sherman, Lee Smith (Washington)
ASSOCIATE EDITORS Edward C. Baig, Kate Ballen, Rosalind Klein Berlin, Vivian Brownstein, Erik Calonius (Miami), Ann Reilly Dowd (Washington), Joel Dreyfuss, Brian Dumaine, Alan Farnham, Jaclyn Fierman, Brett Duval Fromson, Catherine Comes Haight, Gary Hector (San Jose), Ronald Henkoff (Chicago), David Kirkpatrick, Christopher Knowlton, Andrew Kupfer, Patricia A. Langan, Alicia Hills Moore, Robert E. Norton (Washington), Peter Nulty, Brian O'Reilly, Nancy J. Perry (Los Angeles), Carla Rapoport (Tokyo), Faye Rice, Louis S. Richman, Lenore Schiff, Brenton R. Schlender (San Francisco), Patricia Sellers, Andrew Evan Serwer, Thomas A. Stewart, Alex Taylor III, Shawn Tully (European Editor), Wilton Woods, Ford S. Worthy (Hong Kong)
CONTRIBUTING EDITOR Daniel Seligman
REPORTERS Mark Alpert, J. B. Blank, Susan Caminiti, Mark M. Colodny, Carol Davenport, Alan Deutschman, Constance A. Gustke, Cynthia Hutton, Rahul Jacob, Frederick Hiroshi Katayama, Sandra L. Kirsch, Laurie Kretchmar, Susan E. Kuhn, John Labate, Joshua Mendes, David J. Morrow, Shelley Neumeier, Karen Nickel, Terence P. Paré, Jennifer Reese (Washington), Ellen Schultz, William E. Sheeline, Julianne Slovak, Sally Solo, Richard S. Teitelbaum
ART STAFF Renee Klein, Leo F. McCarthy (associate directors), Linda Eckstein, Frances Fifield, Jean Held, Joan Hoffman, Nai Lee Lum, Barbara R. Smyth (designers), Meher J. Dalal
PHOTOGRAPHY Elizabeth Cheng Krist, Eric Godwin (assistant picture editors), Maureen Duffy Benziger, Christopher E. Green, Shirley Santino, James M. Tarrant
EDITORIAL OPERATIONS Donald G. Biglands (manager), Carol Gwinn (copy chief), Charles Blackwell (deputy), J. Randall Sizemore (technology chief), David Sloan (deputy), Charles J. Attardi, Leslie Brenner, Jonathan Brown, Leon A. Douglas, Edith Firoozi Fried, Anne Glusker, Scott Kelliher, Daniel Lawrence, Michelle Lockhart, Frances Owles, David V. Rile, Mary Alice Rudovsky, Sara Solberg, Susan R. Visconti, Dennis Williams, David Wray
PRODUCTION Guy Gleysteen (makeup manager), Robin Kaplan (deputy)
EDITORIAL FINANCIAL MANAGER Cathy O'Brien
EXECUTIVE ASSISTANTS Anne Gut, Carolyn Sampson
EDITORIAL SERVICES Christiana Walford (director)

PUBLISHER James B. Hayes
GENERAL MANAGER Gregory J. Zorthian
CONSUMER MARKETING DIRECTOR Kenneth Godshall
BUSINESS MANAGER Merida Wellies
PRODUCTION DIRECTOR Barry R. Meinerth

U.S. ADVERTISING SALES DIRECTOR John E. Jay
NATIONAL SALES MANAGER James D. Graham
MARKETING DIRECTOR Michael V. Dukmejian
PROMOTION DIRECTOR David L. Nimz
INTERNATIONAL ADVERTISING DIRECTOR Michael D. Dudley

EDITOR'S DESK

RHODA BAER

Smith and Reese in Washington, where a Japanese family gave $1.5 million to this museum wing

HOW DO YOU view Japan? Economic ally or sly invader? Benevolent investor or owner of our children's future? Take a poll of most Americans and you find that they think Japanese in pin stripes are really samurai at heart.

Fear and loathing of Japan has come out of the closet. The sense of invasion struck home last fall when Mitsubishi Estate Co. bought into the Rockefeller Center complex in Manhattan, which houses the FORTUNE offices. Many New Yorkers felt they were losing part of their patrimony, but emotions ran far more broadly than that. An editor traveling in Missouri found that the Japanese investment was raising blood pressures even there. When a reporter passing through customs in Honolulu presented a claims form listing our address, the clerk piped up: "You know, *they* own it now."

CAROLINE PARSONS

Carla Rapoport in Tokyo

No one is better equipped to assess the rising anti-Japanese sentiment than Lee Smith, who wrote our cover story with help from reporters Jennifer Reese in Washington and Susan Moffat in Tokyo. Now Washington bureau chief, he was from 1983 to 1985 our top man in Tokyo, where he wrote on such subjects as the Japanese work ethic and the blossoming of creativity in a nation that was once thought merely imitative. In this story he probes the American psyche for the source of our attitudes and exposes myths that blame Japan for our own shortcomings.

In Tokyo, international editor Donald Holt and Carla Rapoport, now our bureau chief there, interviewed Michael Armacost, the U.S. ambassador. Much must be done, he says, to persuade Japan to open its markets more widely. But he finds the new American feelings "dangerous." The worst outcome would be if we deluded ourselves into thinking Japanese unfairness is responsible for our competitive failures. For the Japanese are beating us by saving, investing, educating, and working hard—the very qualities Americans have long been proud of and need to return to.

EXECUTIVE EDITOR

FORTUNE (ISSN 0015-8259) Published biweekly, with three issues in October, by The Time Inc. Magazine Company. Principal office: Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Reginald K. Brack Jr., President; Joseph A. Ripp, Treasurer; Henry M. Johnston, Secretary. Subscriptions: U.S., possessions: one year (27 issues) $47.97; Canada: one year (27 issues) $64.53. Second-class postage paid at New York, NY, and at additional mailing offices. Authorized as second-class mail by the Post Office Dept., Ottawa, Canada, and for payment of postage in cash. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, P.O. Box 30604, Tampa, Fla. 33630-0604. Customer inquiries: FORTUNE, P.O. Box 60001, Tampa, Fla. 33660-0001. Phone: 1-800-621-8000. © 1990 The Time Inc. Magazine Company. All rights reserved. FORTUNE is a registered mark of The Time Inc. Magazine Company. **For subscription queries, call Customer Service at 1-800-621-8000.**

FEAR AND LOATHING OF JAPAN

For too many Americans, the Japanese have become the people it's okay to hate. That attitude fosters self-delusion about U.S. flaws. If unchecked, it could hurt everybody. ■ *by Lee Smith*

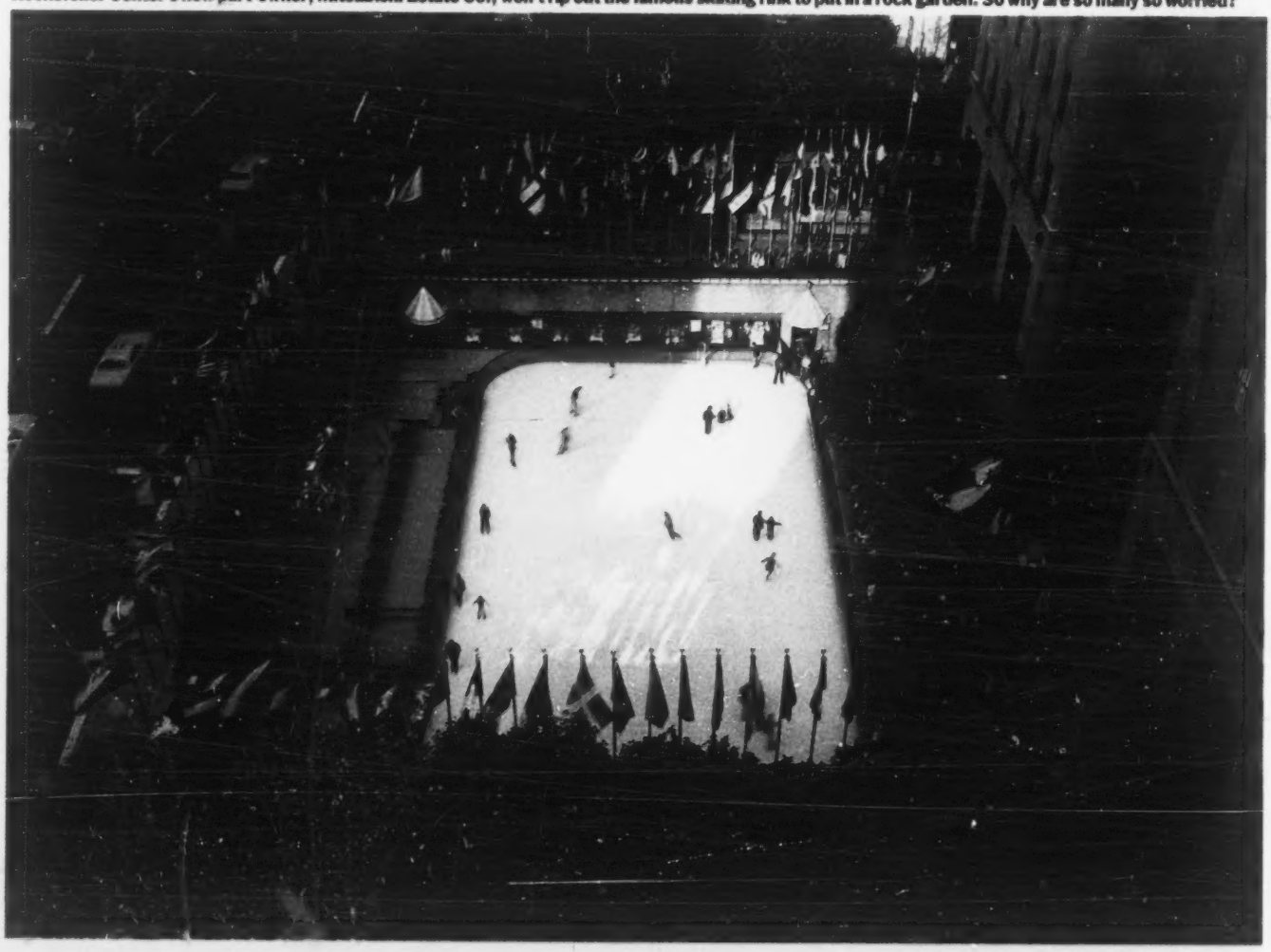
The United States is rapidly becoming a colony of Japan.

—Representative Helen Bentley

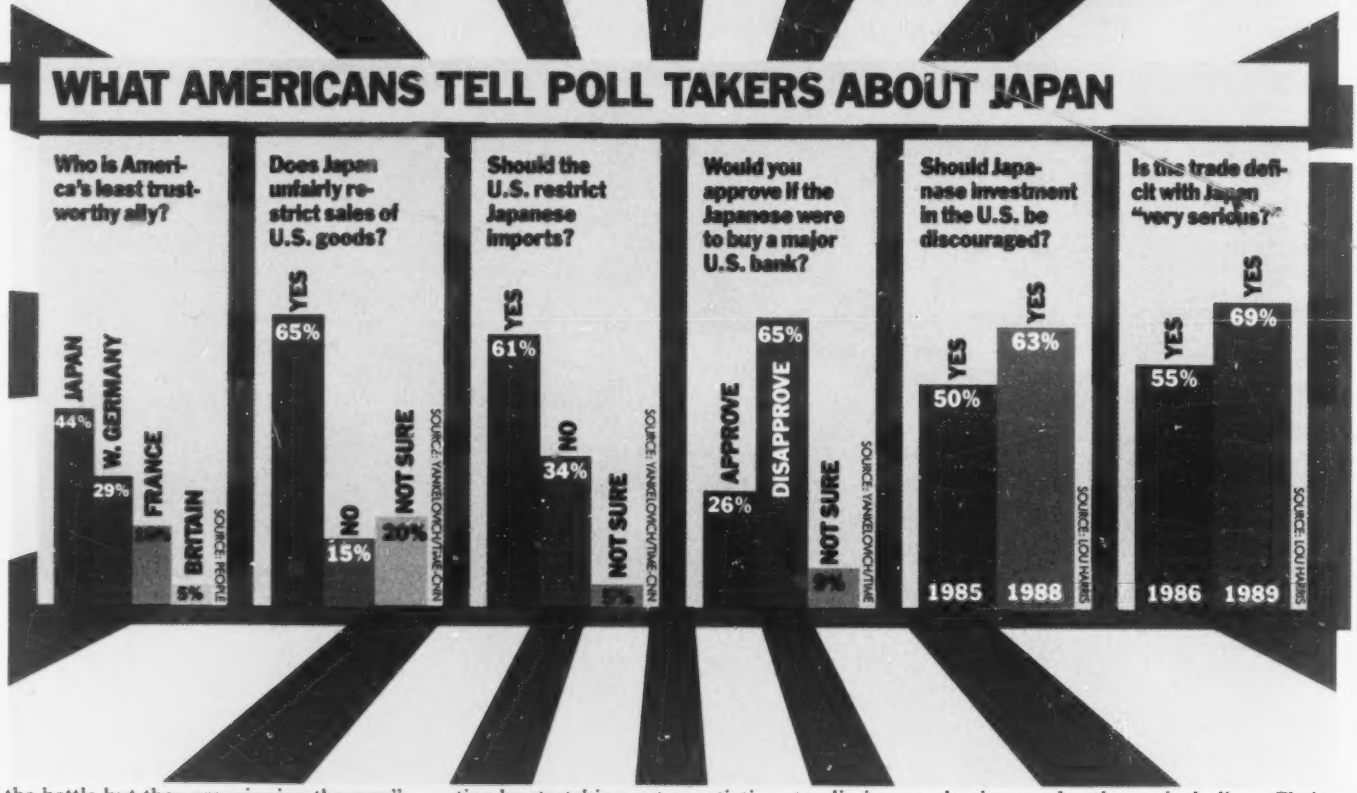
The American voice quivers with anxiety. It cracks with spitefulness: "They've got our beaches and our buildings. Now they're going after our brains. They are taking us over." What is it the Japanese have scratched in the confident Yankee psyche that makes the sound come out so intolerant, so frightened, so, well, un-American?

When Mitsubishi Estate Co. bought control of Rockefeller Group—which owns parts of Rockefeller Center—last fall, commentators seemed to see Zeros dropping out of the clouds. The Fox television station in New York City ran a film showing the attack on Pearl Harbor. Dennis Duggan, a *Newsday* columnist, interviewed a veteran of the Bataan death march who said, "We won

Rockefeller Center's new part-owner, Mitsubishi Estate Co., won't rip out the famous skating rink to put in a rock garden. So why are so many so worried?



ERIK STOLLER—ESTO



the battle but they are winning the war."

What war? Listening to Helen Bentley explain the flow of Japanese money to the U.S. is to hear a twist on the horror movie *Invasion of the Body Snatchers.* Says the Republican Congresswoman from Baltimore: "Japanese banks lend money to our companies so they can get inside and look at the books. They discover the weaknesses, exploit them, and demand 20% of the company in exchange for a rescue."

Suddenly the Japanese have become the people it is okay to hate. Growl at any other race at a New York or Washington salon, and your dinner partner turns away in embarrassment. Deride the Japanese, and hear your table mates cheer and pile on with abuse of their own: "It's outrageous that they can buy Rockefeller Center and we can't buy their real estate," or "They dump their products here, but their markets are closed to us." Both assertions wildly distort reality (for more myths and half-truths, see page 53).

JAPAN BASHING has been going on for a decade or so, but lately the intensity has reached stunning proportions. The U.S. does have legitimate complaints. Japan's export-led growth policy was not only defensible but sensible as well in the early postwar period. However, the government stayed with it long after huge trade surpluses set off warning signals all over the world. Japan exacerbates the situation by stretching out negotiations to eliminate import restrictions as long as it can. Says U.S. Trade Representative Carla Hills: "When you finally get a concession, you don't have that good feeling."

But clearly Japan is not an enemy. The extraordinarily complex military, political, financial, and trade relationship between the two countries has stabilized the North Pacific and elevated living standards on both sides of it. And the U.S. has contributed to the problem with bad habits of its own, such as saving too little and allowing large portions of American business to grow uncompetitive (for the situation in one industry, see Autos). The danger is that the spiral of rising passions on both sides will lead to restrictions on investment, tariffs and embargoes, interest rate battles—the real economic war that people only hallucinate about now.

Anti-Japan feeling used to be a largely blue-collar phenomenon, ignited by job losses in autos and steel. Auto workers smashed Japanese cars. In 1982, a Chinese American was beaten to death outside a Detroit bar, his assailants having apparently assumed he was Japanese. Lately such antipathy has subsided, partly because Japanese producers started building cars in the U.S. (UAW headquarters has removed a sign advising visitors to park their foreign vehicles elsewhere.)

Now white collars are taking over the battle. An intellectual patina comes from the so-called revisionists, a school of journalists, academics, and others, including Clyde Prestowitz, a former U.S. trade official and author of *Trading Places: How We Allowed Japan to Take the Lead*; James Fallows of the *Atlantic*; Chalmers Johnson, a professor at the University of California at San Diego; and Karel van Wolferen, a Dutch correspondent in Tokyo who has written an influential book excerpted in FORTUNE last year and much talked about in the U.S.

THEY take their name from having revised what they see as the traditional view, held by many old hands in the State Department, that since Japan is rapidly becoming more like us, most of our problems will fade away if we just keep up pressure for reform. The revisionists don't fantasize about kamikaze attacks on the U.S. economy. They argue that Japan is neither righteous nor wicked, just different, and will never have a free market like that of the U.S. The only answer is managed trade. Maybe we should put tariffs on Japanese imports, says Fallows. We should create an American Department of International Trade and Industry to coordinate economic policy, says Johnson. It's a seductive vision that adds up to protectionism and industrial policy.

In some precincts a whiff of McCarthyism is in the air. Self-appointed watchdogs compile lists of academics and lobbyists who take Japanese money, as though the recipients were collaborating with an enemy power. A dozen Congressmen, including House

STEVE PROCHNOW

Bemoaned by U.S. competitors, shiploads of Japanese goods have made them shape up.

Majority Leader Richard Gephardt, sent a letter to President Bush complaining that a consultant to his Council of Economic Advisers, University of Michigan economist Gary Saxonhouse, has also advised a research institute funded by Japan's Ministry of International Trade and Industry.

A RECENT cover story in the *New Republic* detailed how Japanese are spending hundreds of millions of dollars to finance research in the U.S. and buy up Washington's top legal and lobbying talent, "creating a subtle climate of corruption." Prestowitz agonizes over the plight of Salem College, a failing West Virginia institution that has merged with Japan's Teikyo University to stay afloat. Salem-Teikyo plans a student body of about 1,000, half from the U.S. and half from Japan and elsewhere. "It's weird," says Prestowitz. "We used to export philosophy. Now we import it."

Are these causes for alarm? Hardly. At least a dozen American universities, including Stanford, have campuses in Japan. Saxonhouse's unpaid consulting work, involving oligopolies and exchange rates, was so abstruse that it won't help anyone sell machine tools. Saxonhouse reckoned that what he was doing was patriotic, since the National Science Foundation encourages scholars to take part in Japanese projects.

The specter raised by the *New Republic* is of a sinister and united Japan Inc. manipulating Congress to work against America. The reality is that, like most pleaders, those working for the Japanese are usually advancing one set of American interests, say those of consumers, against another, such as those of producers seeking to avoid competition. There is no evidence that the Japanese have persuaded legislators to do what

JAPAN AND THE U.S.: MISINFORMATION AGE

A cloud of myths and half-truths dim America's vision of the Japanese. Among the most common:

■ Japanese can buy Rockefeller Center, but Westerners can't own property in Tokyo.

Coca-Cola, IBM, Eastman Kodak, SmithKline, and insurance giant AIG, among others, all own major office buildings, laboratories, or factories in Japan. AIG's 15-floor headquarters, overlooking the Imperial Palace grounds, is worth $1.5 billion. Many American citizens own homes.

■ Sony takes over CBS Records and Columbia Pictures, but foreigners can't acquire Japanese companies.

It's true that a lot more investment is flowing west. Companies don't change hands often in Japan, even among the locals, and hostile takeovers are rare. But there are no major legal hurdles. Merck acquired Banyu and turned it into one of Japan's fastest-growing drugmakers. Ford owns 24% of Mazda, and Chrysler has an 11% stake in Mitsubishi. Foreign investors own 14% of Sony's shares.

■ While the Japanese gobble our markets, they keep foreigners out of theirs.

Most Japanese tariffs and quotas have been eliminated, as have tedious inspection and modification procedures that kept goods sitting on the dock. Imports, including a lot of BMWs, were up 35% last year. Among the remaining complaints: 17 Japanese companies have bought U.S. supercomputers, but the government has yet to buy more than one.

■ They hire former U.S. officials to lobby in Washington, but Japanese won't work for Americans in Tokyo.

Salomon Brothers has a former MITI vice minister and a former senior official at the Ministry of Finance on its payroll. Hideo Yoshizaki, chairman of Texas Instruments Japan, was a deputy director at MITI.

■ The money Japan has saved on defense has built its industry.

Some economists agree those savings have helped a bit. But if Japan had developed a big defense industry, it probably would have cut deeply into U.S. arms exports worldwide. Anyway, a major mission of F16 fighters at Misawa, Japan, during the 1980s has been to keep an eye on bases around Vladivostok, home of Soviet submarines capable of firing nuclear missiles at the U.S. West Coast.

■ Japanese auto plants in the U.S. merely assemble parts made in Japan.

The Japanese are increasing their local content. It is expected to reach 67% this year. At the same time, U.S. automakers are importing more parts from Mexico and other foreign plants.

they would not otherwise have done.

Just what Americans fear in the Japanese is complicated to sort out. Among other things, some seem worried that Japan has a grand design, maybe to dominate the world economy, maybe to humiliate the West. This theory is rooted in the belief that though the West won World War II, the Japanese never really quit but only changed weapons—a dramatic enough idea to have caught the fancy of some surprising people. Historian Arthur Schlesinger Jr. recently wrote in the *Wall Street Journal*: "Japan is considerably less repentant than Germany about its aggressions and atrocities of half a century ago and very likely more driven by the desire for vindication and even perhaps for revenge."

Schlesinger is partly right. Japanese schoolbooks still gloss over Japan's role in the war. But revenge? Where is the evidence? Coming from a distinguished historian, such noodling is poisonous. Readers take him seriously.

Thinking about the Japanese *can* be frustrating. Big powers have great purposes. The U.S. has one: to spread democracy and free markets. The Soviet Union used to have a meddlesome mission, to turn the world Marxist. Now it has a healthy one: to become more like the U.S. and slip into the jet stream of the global economy. Surely Japan has some grand design too.

WESTERNERS LOOK for the secret in Japan's government-business relationship. Government planners try to figure out which industries will grow fastest. Then they stimulate investment with tax or fiscal incentives. But business listens only when it's convenient. Mitsubishi bought 51% of Rockefeller Group despite a Ministry of Finance warning not to irritate Americans by acquiring showy landmarks. Automakers refuse to reduce overcapacity. For all the talk of a centrally dictated economy, Japan has nine car companies, all slashing away at one another, while free-market, entrepreneurial America has but three, one of which was kept alive by government aid.

So what are they really up to? Probably not as much as most Americans suspect. Japanese companies are bent on expanding market share and will crush their brethren as quickly as foreigners if they can. At bottom, the government pursues those same banal objectives others do: steady growth, high employment, low inflation. Japan won't tell us what its goal is? Okay, we get it! It must be world domination! Hard as it is for Americans to believe, Japan still has trouble thinking of itself as a global power that ought to have a grander mission.

Even with nonstop jet service to Tokyo and an ever-increasing number of Japanese expatriates and tourists, the country still seems so *distant* to Americans. In the Eurocentric American mind, Canadians, British, and French may be foreigners, but

they are distinguished as individuals. Campeau goes bust, not the Canadians. Maxwell strikes again, not the Brits. But the Japanese have strange names—Mazda, Matsushita, Mitsui, Mitsubishi—and people generalize: "The Japanese bought the factory." That reinforces the illusion that they work in concert to a single end.

With skimpy knowledge of Japan, journalists find it hard to evaluate trade negotiations. Japan refuses to open its rice market. True, and an ill-conceived policy for sure. Americans should remember, however, that the Japanese are protecting their politically powerful farmers, and the U.S. has been known to do the same. Another perspective that rarely gets into the story is that despite the protection, Japan is the largest agricultural customer of the U.S. by far, buying more than all of Western Europe.

A filmmaker who does not want to be identified has written a Japanese character into a script he is doing for Columbia Pictures. He assumes that because Sony now

HOW IT LOOKS TO AN AMERICAN IN TOKYO

The man on the spot in U.S.-Japan trade relations is American Ambassador Michael Armacost. Since arriving in Tokyo last spring, Armacost has been franker than his predecessor, Mike Mansfield, who sometimes seemed an apologist for the Japanese. Armacost, 52, has held high positions in the State and Defense departments and was ambassador to the Philippines in the early 1980s. He recently talked with FORTUNE *international editor Donald Holt and associate editor Carla Rapoport in Tokyo.*

Where do we stand on persuading the Japanese to open their markets more fully?

Despite the resolution of several specific issues, most notably involving telecommunications, our trade imbalance was not reduced much over the past year, and that's a disappointment. The numbers are roughly where they were a year ago. With all due respect for my friends here, over the years the Japanese have taken as much time as possible to yield as little as possible. That forfeits good will. They need to take greater initiative to get rid of the remaining barriers, such as streamlining a complex distribution system, loosening up exclusive business relationships, and introducing greater transparency and fairness into procedural practices. It's important that they display a sense of urgency, that they move beyond discussion to action.

Are you worried by the rising anti-Japanese feeling among many Americans?

It's always dangerous when the hyperbole gets so shrill. After all, Japan is an *allied* country, it's a *friend*. Also, Japan represents such economic strength in the world that it's impossible to solve any problems in the economic sphere without its cooperation, not to mention the importance of our mutual security relationship, on which everybody in East Asia depends.

Still, it's very sobering to watch this economy because they are paying a lot of attention to fundamentals. The Japanese are very purposeful, and they are laying foundations for an extremely competitive economy in the 21st century. It's smart for us to do better. Japan is saving about three times as much as we are and investing about twice as much as a percentage of GNP on plant and equipment. Moreover, their investment is aimed at raising productivity rapidly and turning technological advances into commercial products. Japan is clearly training its young people well to meet the requirements of jobs in the information age. These are basic things. These are not things we can criticize them for. They are the qualities we admire in ourselves, historically. We need to get back to them, very fast.

CAROLINE PARSONS

Armacost: Danger in so much hyperbole

If we are successful at opening markets in Japan but haven't done these things that assure our competitiveness, then it will be to no avail. Each day we delay in getting a grip on things like our savings rate, our educational system, and our budget deficit, it will be harder and harder to catch up. Fortunately, we are a resilient people. As someone said, there is a special providence that looks after drunks, fools, and Americans. With work, strength, and resilience, these are all manageable problems.

When Japanese buy landmark buildings and make other investments, many Americans get nervous. Should they?

If you run up deficits, you have to finance them. I think direct foreign investment, particularly in manufacturing facilities, is a beneficial way to do it because it brings jobs, technology, and management skills.

Now that the cold war is over, some say that the U.S. needs a new enemy and Japan fits the bill. How do you respond to that?

It would be stupid to forfeit our relationship by treating Japan as anything other than what it is—a friendly nation. But there is another side to that issue. Americans are competitive people, and it's good to have a competitor. I went to graduate school right after Sputnik. The shock of seeing the Russians put a satellite in space gave a strong boost to America's scientific and technological development. The challenge today is to look at Japanese competition in its proper context. Maybe we could think of ourselves and Japan as the Celtics and the Lakers. Of course, the playing field has to be equalized. When it is, the spur of competition makes you more productive. Competition doesn't have to be destructive.

owns the studio, Chairman Akio Morita would demand it. If a Catholic had taken over the company, would he have written in a priest? "No, but the Japanese are different," he insists. Says who?

If a French group had bought into Rockefeller Center, Americans would not have anticipated a beaux arts face-lift. But who knows what the Japanese might do? What do they care about Christmas trees and the Rockettes? Americans, in fact, know next to nothing about Japanese tastes or the broad acceptance in Japan of American aesthetics. Year after year Hollywood's exports are Tokyo's box office bonanzas. Don't expect big changes in Rockefeller Center.

CATHERINE LAMBERT (2)

Bentley leads the Japan bashers on Capitol Hill.

DO CAUCASIANS despise Asians as an inferior race? Shintaro Ishihara, a member of the Japanese Diet adept at calling attention to himself, advances that idea in *The Japan That Can Say No,* a mean-spirited book that has circulated in bootlegged translations on Capitol Hill and has played a role in the swelling antipathy toward Japan. "American racial prejudice," he writes, "is based on the cultural belief that the modern era is the creation of the white race."

He's got that wrong. Western fear of Japan is more likely to be accompanied by awe of its achievements, its discipline, and the quality of its craftsmanship. Looking at IQ scores, some Americans conclude that, as a people, the Japanese are simply smarter; they average slightly higher than Americans do and score much better on standardized math tests. This also can be carried too far, making Japan mightier than it is. There are holes in Japan's infrastructure at least as serious as those in the U.S. Sewers are in particularly short supply.

In some Americans, the anger toward Japan resembles the anguish of a defeated people—or so they think of themselves. Yankee ingenuity invented modern production, establishing U.S. methods as supreme. Success validates American values as well: a blend of Protestant work ethic and free-wheeling frontier social structure. Yet the Japanese, with those peculiar, cumbersome customs (let's see, how deeply do you bow to the CEO?), are outperforming us. Americans could once console themselves that they were inventive, the Japanese imitative. Now it turns out that in consumer electronics and the new wave of autos, the Japanese show they know how to create.

THIS YEAR the tension may well increase. Japanese investment in the U.S. will probably spurt. Japan's defenders like to point out that the British have been the biggest investors in the U.S. But if recent trends continue, the Japanese, who bought $13.7 billion of properties in 1989, will move into first place in 1990.

Grumbling in Washington will grow. The Bush Administration will report to Congress in April on the progress of its so-called Super 301 complaints against the Japanese. Named for a clause in the 1988 trade act, the measure requires the President to single out countries deemed to have unfair trade barriers and retaliate if they don't remove them through negotiation.

Although 17 Japanese companies, including Sumitomo Chemical and Toyota, have bought Cray supercomputers, the government has bought only one. The U.S. also maintains that Japan should buy more American satellites (it has purchased five so far) and drop various picky specifications, such as the number of knots allowed in imported lumber.

Congress will demand as well that the White House show headway in the ponderously named Structural Impediments Initiative. Basically, legislators want Japan to scrap all business practices that make commerce difficult for foreigners. That includes breaking down the system by which Japanese companies buy only from local suppliers. The Japanese get their backs up over commands like that and counter that it is the U.S. that should change its ways: Invest in manpower training, save more, look beyond the next quarter, learn the metric system. The argument could get nasty.

This ever-building Japan bashing is dangerous. The relationship between the U.S. and Japan is intricate. Overheated rhetoric could cause a blowout in one part of the system that would lead to a chain of ruptures elsewhere.

Start with the military alliance. Americans complain that Japan freeloads, spending only 1% of GNP on defense while the U.S. spends 6%. Still, even that tiny fraction of Japan's booming economy amounts to $30 billion these days, which approaches what the U.S. spends west of Hawaii.

But it's Japan's part of the world. Shouldn't the Japanese spend more? If the U.S. wants to remain a global power, it has to steam through the appropriate straits to discourage the North Koreans and other bellicose locals from threatening sea lanes or neighboring countries. Even if the Soviets relax, the U.S. will want to keep a force in the North Pacific until the Russians mothball the submarines that are capable of launching a nuclear attack on the West Coast.

Close cooperation with Japan is the best way to carry out the assignment. U.S. carriers and attack planes mesh well with Japanese destroyers and submarine spotters. Where would the U.S. repair and resupply the fleet if the Yokosuka base were closed? If the U.S. and Japanese navies were to pull apart, the Japanese might be tempted to build carriers of their own. That would rattle the neighbors and could force the U.S. into an expensive military competition. Fifty-fifty cost sharing sounds about right.

Prestowitz worries about imported philosophy.

The word trade is so often coupled with "deficit" or "problem" that its enormous boon is easily forgotten. Stop the flow, and some major American companies would quickly feel the pain. Weyer-

haeuser exports $1 billion of paper and wood products to Japan every year; Dow, $600 million of chemicals and related products. The largest fleet of Boeing 747s belongs to Japan Air Lines. And many U.S. companies depend on the Japanese for components.

While American consumers have benefited from better cars and video cameras, competition has forced U.S. industry to sharpen up. Return to Congresswoman Bentley's district for a moment. It's the home of Bethlehem Steel's sprawling Sparrows Point complex. Imports, including Japanese, nearly put the plant out of business in the mid-1980s. But Sparrows Point has come back, with an attitude that's much improved. "Like all American steel companies, we used to tell the customers what they could have and when," says spokesman Ted Baldwin. "Now they tell us."

WHAT ABOUT Japanese investment? Economists Edward Graham of Duke and Paul Krugman of MIT, after a detailed study of foreign purchases, found no reason for apprehension. The U.S. is simply becoming more like Europe, where a larger share of business is owned by outsiders. Fed Chairman Alan Greenspan approves too. "If a Japanese buys a building in the U.S., we see it as a source of concern," he notes. "If he takes it apart brick by brick and carries it back to Japan, we call that trade."

Where do the U.S. and Japan go from here? The revisionist policies won't cut it. Japan is not as exotic as they make it seem. Some of these practices Americans complain of turn out to be a lot like what went on in the U.S. less than a generation ago. Look at how AT&T operated until 1984. The telephone monopoly controlled 84% of long distance and 90% of local calls, and bought equipment only from its manufacturing arm, Western Electric. Until the 1960s, American auto companies used only domestic steel.

Consumers made great sacrifices. Regulated prices and schedules required airline passengers from New York to Los Angeles to subsidize those flying from Cincinnati to Salt Lake City. Federal law funneled cheap money to the construction industry by forcing holders of savings accounts to accept interest rates below the market.

Obscured by the war of words is the fact that Japan *is* changing. The U.S. railed at its habit of importing mostly raw materials. Now manufactured goods have risen from just 22% of all imports in 1980 to 50% in 1988. To nudge the trend along, the government has begun giving tax breaks to manufacturers that use imported components.

By reputation, Japan thrives because it pumps out exports and sells them at predatory prices that decimate local producers in the rest of the world. But from 1980 to 1988 the share of Japan's GNP represented by exports dropped from 12.2% to 9.3% (compared with 6.6% for the U.S. and 26.8% for West Germany).

CHARLIE ARCHAMBAULT

Teikyo University merged with this failing college in West Virginia.

The first step in learning to think straight about Japan is to recognize that, at least for the moment, the trade deficit is headed in the right direction—down. The U.S. still came up $50 billion short last year. But Japan's imports from the U.S. rose 17% and exports to the U.S. only 4%. Exchange rate adjustments and the lowering of barriers seem to be working, however slowly.

American negotiators should continue to insist that Japan open its market to inexpensive foreign rice, which would leave consumers more money for other goods, Japanese and imported. But the dial on the pressure gauge should be kept steady, recognizing that almost all countries protect their farmers as long as they can.

The U.S. is right to insist that American contractors be given a fair shake in the competition to build bridges and airports; foreigners sometimes learn of the job only after bids are closed. Negotiations in the private sector, such as those carried out by the U.S.-Japan Business Council, should be pressed. Dozens of micro-agreements on such matters as common standards for testing pharmaceuticals ultimately result in the opening of difficult markets.

For Washington to demand much more begins to intrude deeply into Japan's domestic affairs in a way its people are likely to find offensive—just as Americans would. For example, the Bush Administration wants Tokyo to prosecute violators of antimonopoly laws more vigorously. If Tokyo agrees, does it get to insist that the U.S. crack down, say, on the use of drugs in the workplace on the ground that narcotics reduce productivity and competitiveness?

Back home, the U.S. has to make adjustments. The fundamental cause of Mitsubishi's and other Japanese companies' winding up with a trade surplus and dollars to invest is that Americans are inclined to consume today, Japanese tomorrow.

No need to get into the metaphysics of which is more virtuous, of whether we should save to give our children a higher standard of living than we have experienced. (You can argue it's holier to spend now on a Caribbean cruise with your aging parents.) But as a practical matter, the money the Japanese don't spend today will wind up in the savings pool, making capital cheaper for Japanese companies. That usually makes a manufacturer more competitive. The U.S. savings rate does seem to be ticking up as the baby-boomers start to contemplate the coming failures of the flesh. That should help America compete. Thinking of Japan as a trade rival is not damaging. What's corrosive is thinking of it as an enemy—and of the contest as economic warfare. F

CAN AMERICAN CARS COME BACK?

Not quickly or easily. Detroit's problems go well beyond slow sales. The Big Three must make huge changes—and get some lucky breaks—to stay competitive.

■ *by Alex Taylor III*

AS A SWISS-BORN ex-Marine, Chrysler Motors President Robert Lutz doesn't have much tolerance for euphemism. Even so, a little-noted speech he made to Chrysler suppliers was remarkable for its bluntness. "Folks, it's time to do or die," said Lutz. "I'm turn-down-the-heat and shut-off-the-lights serious."

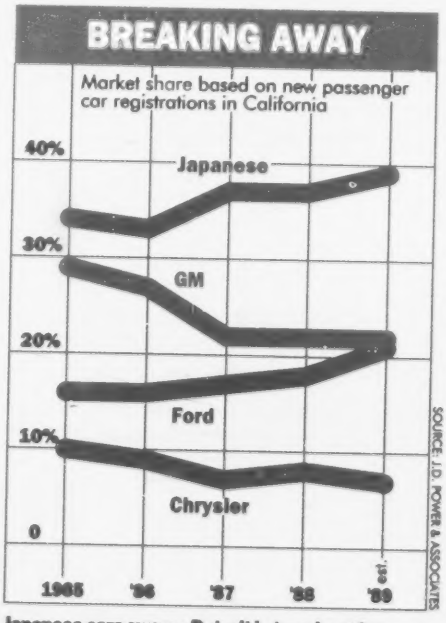
For Lutz and most other auto executives, the 1990 model year has gotten off to a bad start. Higher interest rates and an oversold market have pushed car sales into a 25% decline in the first three months, after several strong years. General Motors, Ford, and Chrysler all lost money on passenger car operations in the fourth quarter of 1989 and are expected to do so again the first three months of this year.

Far more worrisome: This trend may accelerate a long-term decline that could destabilize the U.S. auto industry. Despite the Big Three's efforts to build better, cheaper cars, the Japanese remain the world's high-quality low-cost automotive producer—at home and in the U.S.—with no sign that the gap is closing. Indeed, cars made by Toyota, Nissan, Honda, and company are so popular that by the end of this year they may account for nearly one of every three sold in America.

Looks like the Broncos vs. the 49ers again, and there is no home-field advantage. Waiting on the sidelines are two new coaches: Red Poling succeeds Donald Petersen as CEO of Ford on March 1, and Roger Smith's replacement—yet to be named—moves in at GM on August 1. The new guys must devise a game plan to win back customers and quarterly car profits. Changing strategies will be painful and will require some triage. Detroit must focus its resources on product lines, mostly big cars and trucks, where it has an edge, and let others drift. It must also get smarter about market research, advertising, and customer relations. Otherwise, the sales slide could become a rout. Important brands—Oldsmobile and Chrysler—are close to a tipping point. If sales of these cars fall much further, their customer bases will be so shrunken that dealerships will start to fail, making an upturn more difficult.

California has already tilted, and not because of an earthquake. In a state where about 12% of all new cars are sold—and one that is often a harbinger of the latest trends—Japan dominates with nearly 40% of the business (see chart). Detroit accounts for more than two-thirds of car sales across the U.S., but has just 50% of the California market. Hondas and Toyotas outsell Fords and every division of GM except Chevrolet; Nissan outsells all Chrysler brands combined.

As California goes, so could Kansas, Nebraska, and South Dakota. Having saturated the East and West coasts with dealers, Japanese automakers are pushing into the Midwest. J.D. Power & Associates, the automotive market research firm, figures they will open 1,800 Midwestern outlets over the next five years.

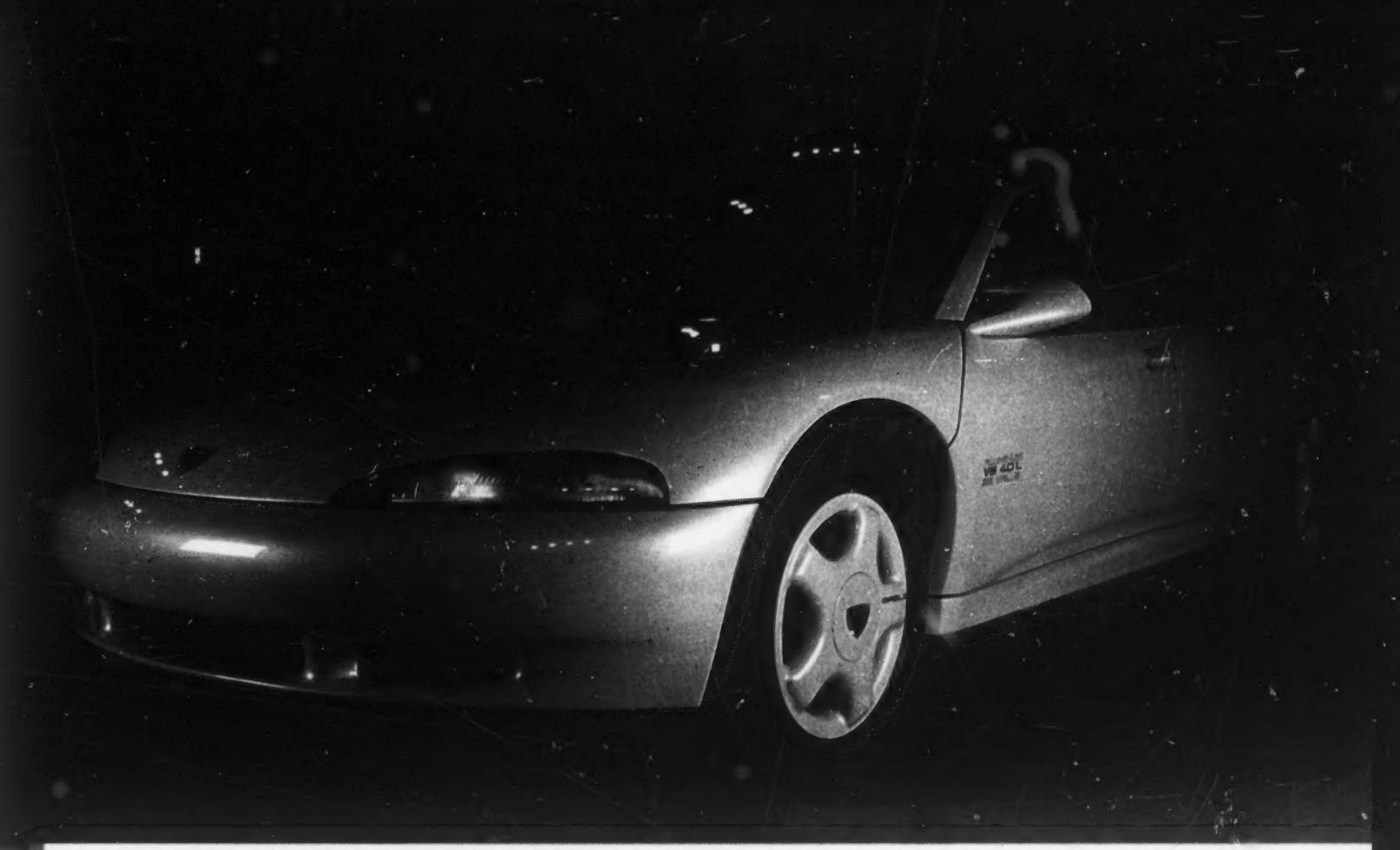


Japanese cars swamp Detroit in trend-setting California, where 12% of new autos are sold.

JAPANESE COMPETITION is so stiff that Detroit now sells nearly half of its cars—subcompact and compact models—at a loss. Ford built the new Escort from Japanese blueprints and still expects to lose money on every one of the 500,000 subcompacts it sells this year. Compacts costing up to $14,000, such as the Ford Tempo and the Chevrolet Cavalier, are no better than breakeven propositions, as top executives have begun to concede. Says Alex Trotman, 56, the fast-rising head of Ford's North American auto operations: "Whether we are in the red on compacts varies from year to year depending on the level of sales." Why, then, does Detroit continue to make small cars? Because it counts on them to lure entry-level buyers, to provide dealers with a full product line, and to keep the federally mandated corporate fuel economy averages (CAFEs) high enough to compensate for fuel-thirsty luxobarges.

Over the next few years the Big Three's cost structure could get much worse. The Bush Administration is poised to raise standards for fuel economy, exhaust emissions, and safety that will cost more than $6.5 billion. In addition, contracts with the battered and embittered United Auto Workers union expire in September. Since Detroit needs the autoworkers' cooperation to spur quality and productivity improvements, the union has a wedge to win expensive job security provisions.

The Japanese pay less for capital, labor, and benefits, and their factories—including those in America—are the world's most productive. Several Japanese plants in the



Chrysler's fate may ride on this midsize sedan, the first to enlarge the seating area without sacrificing aerodynamics. Code-named the LH, it's due in 1992.

U.S. employ non-union workers and thus enjoy a $10 per hour edge over Big Three facilities. These cost advantages allow them to price cars aggressively to win market share. For example, the $31,000 Mitsubishi 3000GT VR-4, made in Japan and marketed by Dodge as the Stealth (see Innovation), is loaded with such features as all-wheel drive and four-wheel steering. But it will sell for $6,000 less than its prime U.S. competitor, the $37,285 Corvette.

If Detroit cannot beat Japan on cost, how about quality? Gossip about Japanese quality problems circulates faster in Detroit than talk of celebrity sexual peccadilloes; word got around quickly when several of the Toyota Lexuses bought by GM developed cracked windshields. Still, Japan's cars remain the best engineered and assembled in the world. Says consultant Leonard Sherman, a Booz-Allen & Hamilton vice president: "American auto manufacturers are way behind the worldclass standards of the Japanese in human productivity, asset utilization, and speed, as well as quality."

The latest reminder of that unpleasant fact comes in a study by Easton Consultants, which analyzes the auto industry from offices in Boston and Stamford, Connecticut. After examining 100,000 repairs in recent cars and trucks, it found that U.S. makes required the replacement of 42% more critical parts—water pumps, transmissions, alternators—than imports.

Need more evidence of Detroit's lack of competitiveness? Then consider that it still takes the Big Three about five years—vs. three for Japan—to develop, design, engineer, and manufacture new models. Compressing that time would enable American carmakers to respond more quickly to market changes.

Each of the Big Three has unique abilities and vulnerabilities. GM is waist deep in money and talent but still elephantine in reaction time. Chrysler can maneuver faster than a Formula One racer but has shallow pockets; it hopes to hang on by Lee Iacocca's fingernails until its 1992 launch of a new line of radically styled "cab-forward" midsize cars, like the one pictured above. Ford is more competitive. Tom Wagner, head of Ford-brand cars and trucks, says his company is so strong that it should no longer be thought of as part of the Big Three. But Ford's future may be behind it because development of important new models, such as the Tempo and Taurus, has slowed.

Can U.S. cars come back? Despite the differences among Detroit's automakers, all three can take a few common steps to regain momentum. Herewith, five suggestions:

■ **Protect and polish the crown jewels.** With 33 domestic and foreign manufacturers selling 600 models, America has the world's most competitive car market. Since Japan appears to have an insurmountable lead in small cars, Detroit should concentrate on midsize and large ones, where it has always had an advantage and where it can make the most money.

GM seems to agree. It is merging three lines of small cars into one. By 1994 the J body, such as the Chevy Cavalier, and the N body, of which the Pontiac Grand Am is the best-seller, will both be built on the L body chassis GM uses for the newer Chevrolet Corsica. GM is willing to give up some marginal customers to save about $1.5 billion in production costs.

Chrysler aims to win customers by adding incremental value to existing models. By outfitting a $17,000 minivan with leather upholstery and plastic wood, it created the $25,000 Chrysler Town and Country. It gave

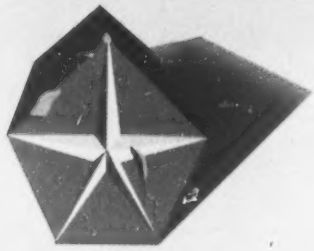
REPORTER ASSOCIATE *David J. Morrow*

PHOTOGRAPH BY DAVID WALBERG

AS THE PLANTS GO, SO GO THE JOBS

16 PLANTS: 36,345 JOBS

DATE, PLANT, LOCATION, JOBS LOST
5/87 Truck & Bus, Flint, Mich.: 3,400
6/87 Central Foundry, Pontiac, Mich.: 1,200
8/87 Assembly, Norwood, Ohio: 4,000
8/87 Truck & Bus, St. Louis: 2,570
12/87 Clark Street, Detroit: 3,300
12/87 Pontiac Assembly, Pontiac, Mich.: 2,000
12/87 Hydra-matic, Constantine, Mich.: 130
12/87 Fleetwood-Clark, Detroit: 3,300
12/87 Fisher Body, Flint, Mich.: 3,000
12/87 Inland Facility, Tecumseh, Mich.: 1,075
8/88 Metal Stamping, Hamilton, Ohio: 2,500
9/88 Conner Steet Stamping, Detroit: 700
10/88 Fisher Guide, Elyria, Ohio: 2,080
12/88 Central RTS Coach, Pontiac, Mich.: 2,200[1]
6/89 Metal Stamping, Willow Springs, Ill.: 2,990
6/89 Fisher Guide, Detroit: 1,990



13 PLANTS: 14,992 JOBS

DATE, PLANT, LOCATION, JOBS LOST
3/88 Indianapolis Electrical, Indianapolis: 975
3/88 Milwaukee Stamping, Milwaukee: 500
9/88 Winfield Foundry, Detroit: 45
11/88 Amplex, Van Wert, Ohio: 330
12/88 Kenosha Assembly & Stamping plants, Kenosha, Wis.: 5,500[2]
1/89 Detroit Forge, Detroit: 470
2/89 Coleman Products, Nogales, Ariz.: 250
3/89 Detroit Trim, Detroit: 950
6/89 Trenton Chemical, Trenton, Mich.: 172
2/90 Jefferson Assembly, Detroit: 1,700
6/90 Coleman Products, Coleman, Wis.: 400
9/90 St. Louis No. 1, St. Louis: 3,700

3 PLANTS: 1,125 JOBS

DATE, PLANT, LOCATION, JOBS LOST
7/88 Romeo Tractor, Romeo, Mich.: 538
12/88 Green Island, Green Island, N.Y.: 287
12/88 Canton Forge, Canton, Ohio: 300

U.S. automakers have closed 32 plants since 1987. Some workers retired or transferred to other sites. GM opened two new plants employing 7,300 people over the same period and expects to start Saturn production at a third factory this summer.

[1]Partial closing. [2]Two plants.

TONY MIKOLAJCZYK

birth to a $26,000 Imperial by stretching the wheelbase of the $15,000 Dodge Dynasty and dressing up its interior. Such tricks do not earn engineering awards, but they do sell cars.

The highest margins in Detroit come from light trucks and sport utility vehicles: two- and four-wheel-drive Jeeps and similar models. They cost less to make than cars and have little competition. The Japanese do not make full-size pickups (their streets are too narrow), and the U.S. imposes a 25% import tax on all two-door trucks: pickups, minivans, and utility vehicles.

In 1990 the Ford division may actually sell more trucks than cars, but like GM, it has been slow to upgrade them. One easy way would be to add safety features, such as automatic seat belts and high-mounted brake lamps, which are already required on passenger cars. Buyers today are safety conscious—a fact that underlies some popular advertising campaigns—and many drivers use trucks and cars interchangeably. The government may start requiring the safety equipment anyway, beginning in 1994.

■ **Get a real dialogue going with customers.** One of the great puzzles of the car industry is that Detroit produces reams of consumer research but still misreads the market. GM and Ford collectively spent $7 billion developing new midsize specialty coupes such as the Oldsmobile Cutlass Supreme and the Ford Thunderbird. They discovered too late that potential buyers were simply not there, in large part because baby-boomers prefer four-door sedans with room for their kids.

The Japanese make mistakes too. Their boxy "high cube" station wagons, so popular in Japan, flopped in the U.S. because of their unusual design. But the Japanese quickly changed lanes; Honda, for example, is about to introduce a conventional station wagon based on the popular Accord.

Customers prefer steak, but Detroit continues to market sizzle. Three years ago Chevrolet unleashed the jazzy "Heartbeat of America" campaign to revitalize its image. The commercials are still running, but buyers have deserted Chevy because its products are lackluster and dated. Since the campaign began, Chevy's market share has skidded from 15% to 13.6%.

When Detroit sticks to the facts, however, buyers pay attention. Sales of the Buick LeSabre rose 4% last year—vs. a decline of 6.6% for the division as a whole—after Buick began promoting the car's No. 2 position in J.D. Power's 1989 ranking of manufacturing quality. Unfortunately for Detroit, imports hold seven of the Power survey's top ten positions, including No. 1, which belongs to Nissan's Maxima.

■ **Make spending count.** When Ford wanted another luxury brand, it bought Britain's Jaguar for $2.5 billion. Competitors whisper that Ford may have to invest another $2.5 billion to modernize Jaguar's factories and product line. When Toyota wanted a luxury brand, it spent $700 million to develop the Lexus LS 400, added a second model at perhaps half the cost, and signed up 70 new dealers. Besides saving money, the Lexus program introduced design and production technologies that can be adapted throughout the company. The lesson: Toyota spent less and got more.

Like Ford, GM is learning that more may also be less. It has lavished an estimated $3 billion on the Saturn small car, which it plans to introduce this fall. But even if Saturn runs rings around its competitors, years will pass before it generates any profits for GM. And it goes up against the world champs of small cars—made by you know who.

■ **Strengthen the dealer system.** Detroit should stop selling cars on price and get dealers to focus on value and service. Dickering over a new car is about as pleasant as a trip to the dentist. Instead of offering cash rebates, which fuel a fire-sale atmosphere, Detroit should cut sticker prices. That would mean less room for bargaining and thus less pressure on buyers to try to get the lowest price. If the dickering is eliminat-

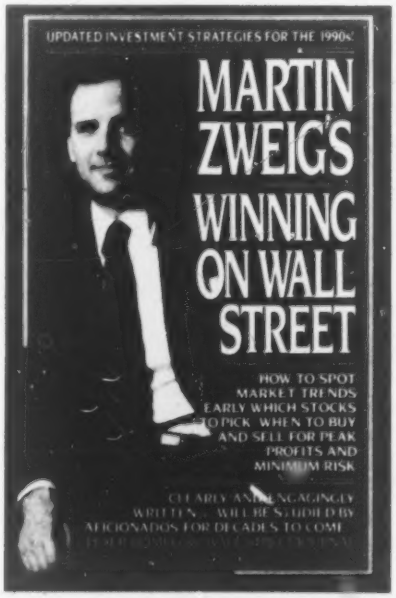
ed, dealers can spend more time emphasizing the features of their cars to customers. For instance, Detroit still leads in the production of V-6 engines, which provide better acceleration than the multivalve four-cylinder engines favored by the Japanese.

■ **Decentralize.** Maintaining the Motor City as the center of the auto universe creates practical and philosophical problems. Detroit's car men spend so much time talking to one another that they tend to reinforce ancient prejudices rather than learning anything new. Recruiting talented engineers to southeast Michigan is also getting tougher. Since cars are full of chips and computers, why not let electronics engineers live in California? Nearly every U.S. and Japanese automaker now maintains a design studio in California to funnel new ideas back to Detroit or Tokyo. For that matter, why not move Pontiac's headquarters to Los Angeles, where all the actors in its TV commercials seem to live? Or send the Chrysler-Plymouth division to Arizona or Florida, close to its retiree customers? Sales would improve, recruitment would be easier, and morale would zoom.

TRYING TO REVERSE a decade-long slide in market share is slow, slogging work. The odds do not favor Detroit. Says David Cole, son of a former GM president and director of the Office for the Study of Automotive Transportation at the University of Michigan: "The Big Three are going to be hard pressed to manage the accelerating change in the next few years." Analysts believe that as the Japanese keep adding more models, and their North American plants keep making more cars, they could add up to nine extra points of market share by the mid-1990s. That would represent 900,000 more cars a year—about as many as Chrysler sells now.

A little luck would go a long way for U.S. automakers. If the dollar weakens to 120 yen from its current 146, the Big Three would gain a price edge over imports. Steady or falling gasoline prices would boost big-car sales, thus giving a lift to what the Big Three do best. Detroit could even turn around on its own. A charismatic leader like Iacocca or a breakthrough design like the Taurus could lift an entire company in a matter of months. The auto industry, after all, reports sales every ten days. But the race is to the swift, and so far the Japanese have been lapping the competition. F

"WHEN ZWEIG TALKS, PEOPLE LISTEN."
—*Time*


UPDATED INVESTMENT STRATEGIES FOR THE 1990s
MARTIN ZWEIG'S
WINNING ON WALL STREET
HOW TO SPOT MARKET TRENDS EARLY WHICH STOCKS TO PICK WHEN TO BUY AND SELL FOR PEAK PROFITS AND MINIMUM RISK

Los Angeles Magazine calls him "America's hottest stock picker." He's the publisher of one of the country's top investment newsletters, an expert featured on the cover of *Money*, and a regular panelist on PBS-TV's "Wall Street Week." Now in his critically acclaimed guide, thoroughly updated for the turbulent '90s, Marty Zweig shares his phenomenal strategies for playing—and beating—the market.

"A truly valuable classic."
—Joe Queenan, *Forbes*

"Buy it, read it, digest its wealth of knowledge and review it frequently."
—Yale Hirsch, *Smart Money*

"Can *Martin Zweig's Winning on Wall Street* have value for the average stock market investor? The answer is an unequivocal yes."
—Federick C. Apter, *Barron's*

A DUAL MAIN SELECTION OF THE FORTUNE BOOK CLUB

A TRADE PAPERBACK

WARNER BOOKS
A Warner Communications Company

NEW YORK: DOWN BUT HARDLY OUT

The city has been unpopular, unpleasant, and unlivable for, oh, at least 100 years now. But the ties that bind business to the place will not soon dissolve.

■ *by Andrew Kupfer*

Dear Milton,

Happy New Year, where you are at least, I hope. In New York City everything's going to pot again. The schools are falling down, the hospitals are falling down, Wall Street is falling down, the sewers are blowing up. My son wants to buy an apartment, but who can afford to now? He's living in a luxury converted welfare hotel.

Then there's the crack and the smack and AIDS and the people sleeping in the Citibank. They open the door and ask for a quarter, finally some courtesy. Other than that there's a new mayor—I'm not saying it's good or it's bad, it just is—and he says he's going to be tough on crime. Now six people have to be shot instead of three before it counts as a shooting spree.

So how's Pensacola?

Harry

THE BITTER forbearance with which New Yorkers view their hometown is beginning to wear thin again. Every decade or so a confluence of events, some local, others from beyond the city's borders, threatens New York City with decay and upheaval. The social and economic problems brewing in the city—crime, illiteracy, and homelessness; drug abuse and AIDS; the high costs of living and doing business; crumbling public facilities—will test it more severely than at any time since the mid-1970s, when fiscal mismanagement and the loss of 600,000 jobs pushed New York toward bankruptcy.

Back then, facing economic ruin, New York was both smart and lucky. Smart, because it put in place extraordinarily effective financial controls that balanced the budget and won back entree to the credit markets. Lucky, because just as the city reached bottom, Act II of the restructuring of its economy began, with service jobs taking up the slack of manufacturers that left; the financial industry, just 12% of the employment base in 1977, added one-third of the 300,000 new private-sector jobs gained since those bleak days.

New York appears to be running out of luck now. Social problems that did not even exist in the 1970s have invaded the city's consciousness and placed new burdens on spending. A series of abhorrent and violent incidents have inflamed both fear of crime and racial tensions, never far below the surface in New York. Companies needing to cut costs are eyeing other locales, as are individuals squeezed by high prices. And the financial industries that propelled New York through the 1980s seem to have lost their motive force. City tax revenues may not grow this year.

The combined effect of its maladies has raised an old question: Is New York in danger of losing its spot as the world's preemi-

REPORTER ASSOCIATE *John Labate*

The World Financial Center in Lower Manhattan is a glossy new addition to the seat of big money.

ADAM BARTOS

ILLUSTRATIONS BY J. D. KING

At City Hall new Mayor David Dinkins faces higher costs and lower revenues than the budget projected.

nent business center? The short answer, which will surprise the prophets of demise, is no.

Strong forces still compel businesses to stay in New York. Talented people still go there. Opportunities for growth still exist. The local government is not going bust. And, in the eyes of the dean of New York economists, the city has not lost its capacity for surprise. "I caution those who question New York City's capacity for comeback," says Samuel M. Ehrenhalt, for ten years the regional commissioner of the Federal Bureau of Labor Statistics. "People who have done so in the past have ended up with egg all over their faces."

That said, not even the most chauvinistic New Yorkers would deny their city is hurting. Of all the items on the wrong side of the ledger, crime grabs the biggest headlines. Per capita rates of murder and robbery have risen by less than 5% in the past decade, but several high-visibility crimes—the assault on a jogger in Central Park, murders of young blacks by white youths in Bensonhurst and Howard Beach, the Bernhard Goetz subway shootings—create the perception that New York has become dramatically more unsafe. Certainly the environment of the city has changed, as drugs, crime, and homelessness reach into even affluent neighborhoods. Says Rosemary Scanlon, chief economist of the Port Authority of New York and New Jersey: "Our public space has been taken over by the poorest of the poor in a way not seen since the Depression. I don't discount the effect it has on the way we feel about ourselves."

As bad as crime and racial tensions and homelessness are, people in the private sector and in city government argue that other aspects of urban life are more serious threats to the economy. Says Karen N. Gerard, a former deputy mayor for economic development and now vice president with relocation consultants Moran Stahl & Boyer: "People like to say quality of life is the reason they leave, because the city can't bargain over that. But the bottom line is cost and quality of labor." Financier Felix Rohatyn of Lazard Frères agrees: "Safety is clearly an issue, but it is not on top of the list. The cost of doing business, taxes, and schools are."

WHY ARE COSTS so high? Poverty is one cause, particularly since New York State, unlike most other states, asks cities to share welfare costs. In 1987 the bill to New York City—nearly one-quarter of whose residents live below the federal poverty level—was about $1 billion. Afflictions like AIDS and crack cocaine are sundering lives and costing additional billions. Last year AIDS alone cost over $700 million, with the city government's share about 25%. As a result, companies in New York face strange species of taxes found nowhere else on earth, such as the 6% levy assessed on their rent. And their employees pay some of the steepest state and city taxes in the nation.

To some extent New York is also a victim of the success of its high-paying businesses, whose employees have bid up the price of living space. As recently as 1982 the cost of housing in the region was about the same as the national median; now it is twice as high. Construction costs are around 15% more than they are just across the Hudson River in New Jersey.

The quality—and quantity—of labor is another critical issue for business. New York's public school system, once a model of excellence and still able to cultivate more Westinghouse science finalists than any oth-

New York City population	1988	7,352,700	**Population density** per sq. mile	Tokyo:	26,121	**N.Y.C. per capita income**	1987	$18,191	**Fortune 500 headquarters**	1988	48
	1980	7,071,639		N.Y.C.:	24,387		1979	$9,942		1980	81
	1970	7,895,563		London:	11,047		1969	$4,908		1970	118
Foreign born	1990	30%	**Private-sector jobs**	1989	3,009,500	**U.S. per capita income**	1987	$15,484	**City budget** fiscal year	1990	$26.6 billion
	1980	24%		1980	2,784,900		1979	$9,033		1980	$12.8 billion
	1970	18%		1970	3,182,300		1969	$3,808		1970	$6.6 billion

To relate the tables on this and the following pages to inflation, it helps to know that $1 in 1970 bought as much as $2.04 in 1980 and $3.16 in 1990.

SOURCES: NEW YORK CITY DEPARTMENT OF CITY PLANNING; U.S. DEPARTMENT OF LABOR; NEW YORK CITY DEPARTMENT OF RECORDS AND INFORMATION SERVICES; EMBASSY OF JAPAN; BRITISH EMBASSY; NEW YORK STATE DEPARTMENT OF LABOR; U.S. DEPARTMENT OF COMMERCE

er city's, is failing in its bread-and-butter job of turning out a literate, work-ready labor force. Belying the city's reputation for workaholism, the proportion of New Yorkers working or looking for work is well below the norm: roughly 55%, vs. 66% for the U.S. as a whole. Only 25% of local 16- to 19-year-olds are in the labor force—less than half the national average of 55%. "The school system has underperformed, not just in New York City but around the country," says American Express Chief Executive James D. Robinson III. "Education is the No. 1 priority on the business agenda."

The decrepit state of the schools' physical plant does not inspire much love of learning. Nearly all of the system's 983 schools need work. The backlog of repair requests has reached 33,000. "High schools used to be built on a monumental basis," says Richard

ARLENE GOTTFRIED

Grand Central Station: a home for the homeless

C. Wade, professor of urban history at the City University of New York Graduate Center. "They were airy and light, and when a kid came in he knew he was someplace. Now, if he lives in a slum, he may find his school a worse place to be than home." The city has just begun a $4.3 billion five-year capital improvement plan for the schools. Wade thinks it may need to spend twice that amount.

SOME DESPERATELY needed leadership has arrived in the person of new schools chancellor Joseph Fernandez, whom the city imported from Miami. He faces a stultifying central bureaucracy and corrupt local school boards that Felix Rohatyn says waste up to $500 million a year on worthless patronage jobs. Fernandez knows that quick and forceful action is essential. On his third day in office he suspended a principal for incompetence, unheard of in a city where principals have lifetime tenure in one building. He also asked 300 headquarters staff to resign. Rohatyn calls him the best thing to happen to the city in 20 years.

Fernandez will try to keep more children in school and off the streets. As it is, the number of high school students who drop out before graduating fell from 32.5% in 1984 to 26.8% three years later, in part because of special counseling programs in the 43 high schools with the worst attendance records. Says Robinson of American Express, which helps train high school students for work in the financial and travel industries: "The problems with the schools are not going to be solved overnight, but they can be dealt with very effectively and dramatically in the short range." One innovation that is catching on: training centers in high schools to help students learn what employers expect of them in the workplace. Sponsored by the Board of Education and the New York City Partnership, a group of local business and civic leaders, the centers began operating in six schools in 1988; they are now in 16, and a bill is before the City Council to expand the program to all of New York's 122 high schools by 1993.

What, in the meantime, is keeping jobs in New York? After all, the schools did not go bad yesterday. "If the city economy depended on the Board of Education, it would have failed 25 years ago," says Raymond D. Horton, president of the nonprofit Citizens Budget Commission and a professor of business at Columbia University. Some businesses simply have no place else to go. For example, financial companies that move their back offices from the city usually keep them within a 50-mile radius; the short leash allows face-to-face contact between the back-office director and headquarters. But the unemployment rate in the New York suburbs—including those in nearby Connecticut and New Jersey—is down to 3%, half the city's rate. Chase Manhattan recently decided to move to Brooklyn instead of New Jersey, in part because nearly 50% of its clerical staff is from that borough and might resist a long commute. Scanlon of the Port Authority says, "Back-office moves from the city to the suburbs are probably over."

Nor is a mass exodus of front-office service jobs likely, despite sophisticated telecommunications. "Stockbrokers feel uncomfortable anytime they're away from the Street," says George Sternlieb, professor of urban planning at Rutgers University. "A few adventurers may take advantage of faxes and modems. But the center of the pork chop is still New York City."

The city continues to lose manufacturing jobs; even in the two years after the crash, it lost more jobs in industry than on Wall Street—21,000 vs. 15,000. Since 1970 the number of FORTUNE 500 headquarters has fallen sharply, from 118 to 48. But ironically, industry left—and continues to leave—less because New York is in decline than because service companies find it such a good place to do business: Bankers, brokers, and lawyers have bid up the average price of midtown Manhattan office space to $40 per square foot vs., say, $20 in Pittsburgh. As John F. Powers, managing director of the real estate brokerage Edward S. Gordon Co., says, "Part of the incentive for the FORTUNE 500 companies to leave was the demand for their space." Counting the FORTUNE Service 500, 110 of the U.S.'s largest corporations have headquarters in New York.

The city doesn't have the monopoly on banking and dealmaking that it once did. But globalism, that 1980s buzzword, should play to New York's strengths in the 1990s. "Globalization

SOCIAL CONCERNS

AIDS cases cumulative	1989	23,906
	1984	3,462
	1979	0
Welfare cases	1989	366,783
	1979	339,978
	1969	273,020
Homeless	1989	70,000
	1979	10,000
Homeless in city shelters per night	1989	23,000
	1979	1,000
N.Y.C. poverty rate	1987	23.2%
	1979	19.3%
U.S. poverty rate	1988	13.1%
	1979	11.7%

EDUCATION

Public school enrollment grades K-12	1989	923,940
	1979	960,242
	1969	1,113,826
Private school enrollment grades K-12	1989	289,749
	1979	312,647
	1969	447,566
High school dropout rate	1987	26.8%
	1986	27.9%
	1984	32.5%

SOURCES: NEW YORK CITY DEPARTMENT OF HEALTH; HUMAN RESOURCES ADMINISTRATION; NATIONAL COALITION FOR THE HOMELESS; U.S. DEPARTMENT OF COMMERCE; NEW YORK STATE EDUCATION DEPARTMENT; COMMUNITY SERVICE SOCIETY OF NEW YORK

doesn't necessarily mean a shift of money to London and Tokyo," says Karen Gerard. "It means the world has a larger need for financial institutions. New York can afford to assume a smaller share of the pie if the pie is growing."

Most large foreign banks already have New York outposts, and they are poised for growth. They came, first, to follow customers from home. "In a global market, if you can't serve your multinational customers in all the major cities of the world, they won't need you even in their home country," says Clarence Hill, an economist at Deutsche Bank AG. The foreign banks are now looking for other ways to make money, such as real estate finance and personal banking, and they are hiring more people. Deutsche Bank, for example, added 100 people to its New York commercial banking operations, raising the total to 350. "Information creates power," says Hill, "and New York is the information center of the world."

AS AN INTERNATIONAL center, New York actually has some cost advantages. Office space in London is twice as expensive as in Manhattan, and in Tokyo four times as much. London has more foreign banks than New York—about 450 vs. 250—because regulations there permit commingling of commercial and investment banking. For the past two years the Federal Reserve Board has been chipping away at restrictions of the Glass-Steagall Act, which forbids universal banking in the U.S., and many in the business believe the act's demise is inevitable. Should this happen, Hill believes, New York's stature in international banking will grow at London's expense. Foreign banks could enter the mutual fund business, insurance, and other lines, encouraging more U.S. hiring. "Without a doubt we would hire in New York," says Hill. "This is where the know-how is."

New York has a flair for rebirth partly because it has always been a magnet for immigrants. The newest crop is extraordinarily diverse, mostly from the Caribbean, Latin America, and Asia, but with no country accounting for more than 15% of the total. Many of the immigrants are skilled, trained as doctors and nurses, engineers and programmers. Others have put new twists on old trades, such as the Korean greengrocers whose lush displays of fresh vegetables quickly attracted customers from supermarkets.

The immigrants create a virtuous circle, with high rates of employment giving them buying power, leading to resurgence of commercial areas, leading to jobs. And their arrival has boosted the city's population, which grew by at least 300,000 in the 1980s. In fact, the city grew faster than the suburbs for the first decade since the 1920s. "A larger population usually means a more buoyant economy," says Roger Waldinger, a City College sociology professor, "and the immigrants have entrepreneurial drive and energy."

New York relies on brainpower from other proving grounds. "What the Nile mud is to Egypt," says Sternlieb of Rutgers, "the graduation ceremonies at all the schools in the country are to New York." In recent years business schools at Harvard, Chicago, and other elite universities have sent fewer MBAs to New York: 20% of Chicago's class last year, down from 27% in 1986; 22% of Harvard's class, vs. 32% in 1986. The trend is disturbing, but placement officers blame the decline on a slower financial industry, not aversion to the city's mean streets. Says Jeanne Husain, placement director of the University of Chicago's business school: "Very few people who are interested in finance will refuse to go to New York City."

For the first time in nearly a decade, New Yorkers are concerned about the municipal budget; still, the tabloids proclaiming the city broke are overwrought. "There's been way too much loose talk about a budget crisis," says Raymond Horton of the Citizens Budget Commission. Because revenues are lower than expected and costs higher, the city will have to vault a $1 billion budget gap in the fiscal year starting this July. "In a $30 billion enterprise," Horton argues, "that's not a Herculean endeavor."

REAL ESTATE

Apartment buildings	1989	119,308
	1979	123,490
	1970	131,193
Park Ave. apartment avg. price, 2 bdrm.	1989	$740,000
	1980	$190,000
Office vacancy rate midtown	1989	11.4%
	1981	2.4%
Office rent midtown, per sq. ft.	1989	$39.62
	1979	$20.18
Assessed value of real estate	1990	$70.1 billion
	1979	$38.1 billion
	1969	$34.3 billion

Intact, for the time being, is the city's capital budget: $22 billion over the next four years to rebuild hospitals, schools, waterworks, bridges, housing. The city may have to cut spending if income falls too much, since tax revenues must pay the debt service. But New York will not suffer the calamitous neglect of the 1970s, when it lost access to credit markets and the capital budget fell to $50 million a year.

People like Horton worry less about a budget crisis than about the city's ability to spend efficiently and improve productivity. New York, for example, increased its police force by 4,200 from 1983 to 1987 but assigned fewer than 1,000 of the recruits to law enforcement; the rest went behind desks. Here are some spending suggestions from the Citizens Budget Commission and others:

■ **HOMELESSNESS.** Allocate more money for housing allowances, less for new city-owned shelters. Says New York University professor Emanuel Tobier: "Judging by the city's track record of managing buildings taken over for tax arrears, which is awful, I question how the new shelters will be run." After New York raised emergency housing payments to individuals and families in 1988, Tobier says, fewer people entered the shelter system, and private landlords in low-income neighborhoods got rent money that helped keep their buildings going.

CRIME

Homicides	1988	1,915
	1979	1,752
	1971	1,466
Robberies	1988	96,578
	1979	82,572
	1971	68,904
Burglaries	1988	128,626
	1979	178,780
	1971	181,331
Motor vehicle thefts	1988	119,650
	1979	85,852
	1971	85,735
Police officers	1988	27,483
	1979	23,675
	1971	31,370

■ **HEALTH CARE.** Build fewer hospitals and more facilities for what Charles Brecher, research director of the Citizens Budget Commission, calls alternative care. Brecher says city hospitals are overcrowded because 11% to 12% of their beds are occupied by people who don't

SOURCES: NEW YORK CITY DEPARTMENT OF BUILDINGS; CORCORAN GROUP; COLDWELL BANKER COMMERCIAL SERVICES; EDWARD S. GOF[illegible]N CO.; NEW YORK CITY DEPARTMENT OF FINANCE; NEW YORK CITY POLICE DEPARTMENT

ON THE TOWN

Dinner at Lutèce without wine	1989	$60
	1979	$35
	1969	$25
Metropolitan Opera ticket	1989	$66.00
	1979	$27.00
	1969	$16.50
Cab fare average ride, 2.9 mi.	1990	$5.88
	1979	$3.33
	1969	$1.52
Plaza Hotel double room	1989	$245
	1979	$75
	1969	$34

need to be there, such as abandoned infants and the elderly. He maintains that these people could be cared for more cheaply outside hospitals.

■ DRUG TREATMENT. The city uses prisons to house inmates who could be better—and more cheaply—rehabilitated in drug treatment centers. "Live-in 24-hour-a-day treatment centers are much less expensive than prisons," says Horton. "If someone's an addict or an alcoholic, and not a rapist or a murderer, he shouldn't be in jail."

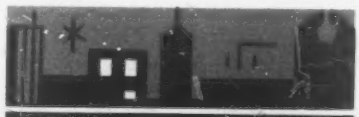
BUSINESS LEADERS have done very little to attack these problems. That's partly because, as Rohatyn puts it, "there is no such thing as *the* business community in New York. There are several business communities, and all have different interests. The chief executives do not all live here. And the city and state political structure has not always been hospitable to the notion of working with the business community." Even so, individuals could do more to help. The city's big wheels have often volunteered their time and money on projects in the public interest—a report on how to manage government more effectively, a new wing for a museum, a skating rink in Central Park. But, says Brecher of the Citizens Budget Commission, "not a lot of people are stepping forward to sponsor facilities for troubled youths."

New Yorkers could also do more to promote their city. Karen Gerard notes that even in cities as large as Atlanta and Denver, companies and local government have learned to cooperate. "Our clients want to go to a town to meet employers and learn about economic development programs in the region," she says. "Those cities can bring it together." New York has, at least, taken some first steps. Last year Mayor Edward Koch and deputy mayor for economic development Stanley E. Grayson took the city's first-ever dog-and-pony show to Chicago and Los Angeles, visiting banks and professional service firms that might be looking to expand eastward. Grayson says response was good, even though none of the targeted companies—which he declines to identify—has made a move yet.

To help lure prospects, David N. Dinkins, New York's first black mayor, should call on satisfied local business people. They do exist. Some, because of the specialized nature of their businesses, are even satisfied with the Board of Education. "The New York schools give us good semiskilled people," says Bernard L. Schwartz, chief executive of Loral, a $1.5-billion-a-year defense electronics company with plants around the country. His flagship factory in the South Bronx is the most profitable of all his plants. True, Loral is in a niche market and tends to hire graduates of New York's vocational high schools. But testimonials like Schwartz's are too good to pass up.

Since winning the election last fall—barely—Dinkins has struck a fiscally prudent pose. He quickly scaled back some of his most expensive campaign proposals, such as treatment on demand for drug addicts. Dinkins is hardly the first politician who promised more than he could deliver, but his actions helped calm the financial community, which worries that city labor unions have the mayor in their collective pocket. Castigated for being too gentlemanly to handle the brawling metropolis, Dinkins made a gutsy appointment, reaching beyond the pale—that is, to Houston—for a new police commissioner despite objections from many New York politicos, Ed Koch and Governor Mario Cuomo included.

The uneasy relationship between the city and the hinterlands has long been New York's bane and its salvation. In a 1939 issue devoted entirely to New York City, FORTUNE wrote: "The discovery of huge resources in the West, occurring at the very moment when economic and political pressures in Europe were driving emigrants to this country, created ideas for the exploitation of the continent; ideas in the heads of the great American entrepreneurs, the gamblers, the speculators, and the investment houses; ideas for vast schemes and enterprises to change the face of the earth. These ideas were not necessarily generated in New York. But they exploded in New York because New York had the immigrants and New York had the *credit*. In one spectacular, breathless human lifetime New York exploded from a marketplace for goods to a marketplace for ideas; basically capitalistic ideas, but also ideas of every kind and shape that a new, expanding, optimistic, liberty-loving, profit-hungry continent could use. The fact is that New York cannot be intelligently discussed as a city, because it is not just a city. It is the heart of the U.S. economy."



ILL WINDS

Garbage disposed in tons	1989	6,135,000
	1979	6,605,000
Water main breaks	1989	609
	1979	574
	1969	415
Suits filed against N.Y.C personal injury	1989	9,510
	1979	9,874
N.Y.C. payout personal injury	1989	$138 million
	1979	$29 million

RAILS AND ROADS

Subway ridership weekday average	1989	3,670,000
	1979	3,600,000
	1969	4,550,000
Subway fare	1990	$1.15
	1979	$0.50
	1969	$0.20
Graffiti-free subway cars	1989	100%
	1985	31%
	1979	0%
Potholes filled 1988	Chicago	320,222
	N.Y.C.	416,000
	Houston	225,000

It still is, 15 years after President Gerald Ford spurned New York's request for money, prompting the New York *Daily News* to run that memorable headline FORD TO CITY: DROP DEAD. "The bulk of learned opinion said New York was dead," recalls Sternlieb. "The only question was how to bury it." Outsiders often dismiss New York as too rich, too profligate, too different. But because some people—and companies—really like it, and others need to be there, the economic circumstances that bind enterprise to New York are not likely to change soon, despite the hardships that always seem about to upset the apple cart.

"Are you from the city?" asks Stanley Grayson, the former deputy mayor. "Aren't there days when you say, 'I can't take it anymore'? There are for me. But then I ask myself, Where else will I go?" F

SOURCES: LUTÈCE; METROPOLITAN OPERA; NEW YORK CITY TAXI & LIMOUSINE COMMISSION; NEW YORK CONVENTION & VISITORS BUREAU; NEW YORK CITY DEPARTMENT OF SANITATION; NEW YORK CITY DEPARTMENT OF ENVIRONMENTAL PROTECTION; NEW YORK CITY LAW DEPARTMENT; METROPOLITAN TRANSPORTATION AUTHORITY; CHICAGO MAYOR'S OFFICE; NEW YORK CITY DEPARTMENT OF TRANSPORTATION; HOUSTON DEPARTMENT OF PUBLIC WORKS